

TESTIMONY BY REP. MICHAEL D. BARNES
BEFORE THE HOUSE SUBCOMMITTEE ON COMPENSTION AND EMPLOYEE BENEFITS
ON THE EFFECTS OF THE ADMINISTRATION'S FY 86 BUDGET PROPOSALS
ON FEDERAL EMPLOYEES AND RETIREES.

February 26, 1984

It is always a privilege to appear before this Subcommittee and its distinguished Chair. Today it's also a heavy responsibility. The decisions that this Subcommittee will make in the next week may well be pivotal to the future of Federal service in light of what the Administration has proposed in its budget.

At the outset, let me join with the Chair and with my co-Chairman of our Federal Government Service Task Force, Vic Fazio, in rejecting the proposal to cut Federal pay by 5 percent. In my view, this pay cut could be the fatal blow that crushes the spirit of public service in our country. The reasons are many.

On a number of occasions, I have spoken about the impact of previous cuts proposed by the Administration and adopted by Congress on the morale of the Federal worker. I have been genuinely alarmed by the degree to which career public servants have become discouraged. We've already lost too many of our very finest Federal employees.

What happens if youth no longer want to serve?

But I am also distressed by the reaction I've found among young people from our Nation's finest universities, colleges, and graduate schools. Most of them reject the premise that it's still possible to build a fruitful career in public service. Young people no longer regard Federal service as an exciting, honorable vocation.

In short, if we do not support a strong Federal service, we simply devalue it. John Kennedy's call for a Federal service that is a "lively career", his challenge to young Americans to serve, to build a secure American future, now seems the faintest echo in the public's mind.

When we devalue pay we devalue Federal service.

We have devalued Federal pay for eight straight years. Federal pay laws require government to pay Federal workers amounts comparable to those received by their private sector counterparts. We seem to forget that when we cut pay we trade a measure of quality for that reduction. Since 1978, inflation-fed deficits obliged government to invent every conceivable excuse for holding pay below the level of comparability. Year after year, pay cuts--and these were pay cuts because the value of Federal pay did not come close to keeping pace with inflation--dragged Federal pay so far behind comparable private pay that the entire pay-setting process became an embarrassment.

We are embarrassed, not because the Bureau of Labor Statistics survey is wrong, but because deficits make us helpless to put the matter right, to obey the law, and to tradeoff pay with minimal damage to the quality of service. We risk making career paths in Federal service a walk into no man's land.

There is no justification for a 5% pay cut.

The pay cut's advocates believe that the reduction can be justified for four reasons: a) deficits create a national emergency that justifies such drastic measures, b) workers in the private sector have had to endure similar cuts in pay in the last year, c) Federal quit rates are several times less than those in the private sector, d) surveys that show Federal workers are paid less than private workers are wrong because Federal pay should be compared to the average pay of all workers--not just workers in enterprises similar to the Federal government.

Vic Fazio wants to speak to the point about private wage givebacks--and also has comments on the ludicrous quit rate analysis prepared by the Office of Personnel Management. My testimony focuses on pay-cut proponents' other two arguments.

Recent work done by our Federal Government Service Task Force provides evidence that a 5% pay cut for Federal workers could precipitate a national emergency in its own right. I don't think the best way to fight one National emergency is to create another one.

The Task Force analysis compares average private pay to Federal pay.

I do not doubt the accuracy of existing comparability surveys. Nevertheless, we decided to examine what would have happened in the last ten years to Federal pay and benefits had--as pay-cut proponents suggest--the Federal government paid its workers the same raise received by the average private sector worker. Please note we're not talking about the average raise for white collar employees or for employees in larger firms. We're just talking about the average worker.

The results of this analysis yield some important insights about Federal pay practices. Using an average private pay raise as a baseline, we found that the Federal government had already saved \$12.3 billion from 1977 through 1985--an average of \$1.35 billion per year by limiting pay increases to well under average annual increases in the private sector. (See chart no. 1, appendix).

For the average Federal worker these savings translated into an out of pocket loss of \$22,330 for the period. That's quite a premium to pay for the privilege of working in the public service. For many, it probably meant that that they could not afford to send a child through college or put aside something extra for retirement. (See charts no.s 2, 3 and 4).

If we cut Federal pay by 5% in FY 86, the gap would rocket up to just under \$30,000--a loss of \$7500 in one year alone. That's \$7500

less than Federal workers would have received had they gotten pay raises equal to those paid to average private sector workers. (See chart no. 3). In 1986, therefore, the gap between Federal and private pay will be 11.9%--a 5% cut and a 6.9% advance for the average private sector employee.

Pay cuts, like deficits, snowball

We have begun to realize--having learned the hard way--that unchecked deficits tend to snowball. Before it's too late, we ought to realize that the same lesson applies to paycuts. We make these cuts in one year, and the reduced salary base keeps on rippling throughout an employee's career and on into retirement. By reducing pay below private sector levels for eight consecutive years, we have amplified this initial ripple into a wave that is dramatically reducing lifetime and retirement earnings.

These are not speculative or imaginary earnings, but very real dollars that Federal employees would have earned had they received the same raise as the average private sector employee for the last ten years. (See chart no. 4).

The snowball keeps right on rolling through the retirement years.

Pay cuts directly affect Federal annuities, particularly for employees at the end of their careers. Pay cuts even more heavily damage Federal employees who defer their retirement to remain in Federal service. Our analysis shows that each year that a retirement eligible employee experiences an additional pay cut cumulatively adds to the amount of pay and retirement benefits he or she loses. This fact is not unknown to senior employees now leaving government. (See charts no. 5 & 6).

An average Federal employee who retired from Federal service in 1977, lost 3% of his or her annuity because pay was held below the average private sector increase. (See profile of losses for 1977 retiree, chart no. 8). The average 1978 retiree lost 5.8% of the annuity. (chart no. 9). The average 1979 retiree: 3.4%. The average 1980 retiree: 4%. Note that during these years, Federal pay stayed within shouting distance of average private pay. (Charts no.s 10 & 11).

Then, beginning in 1981, the percentage of annuities lost began to climb dramatically as pay began to really lag behind. In 1981: the percentage of annuity lost moved into double digits to 10.8% ; then to 10.9% in 1982, up to 11.6% in 1983, and 11.7% in 1984. This year the gap, even without a pay cut, will explode to 15.8%. And, if we go along with a 5% pay cut rather than the private sector increase we will be short-changing our average 1986 retiree by 21.7%. (See chart no. 5). These percentages apply to the amount of annuity lost from the date of retirement to the present, not simply to the impact of pay withheld on the retiree's annuity at the time of retirement.

But the effects on initial annuities are equally serious. The 1977 retiree lost \$303.00 of his or her annuity. By 1981, the average

initial loss was over \$1,000 more (\$1347.00). Last year, pay cuts cost the 1985 retiree \$2298.37. It's small wonder that the average 1985 retiree who had carefully planned for retirement over the past ten years left government disappointed, if not embittered. The 1986 retiree can look forward to an initial annuity of \$3012 less than he or she would have received through average private sector pay raises. In other words, the loss to the initial pension has doubled since 1981. (See Chart no.s 6 & 7).

Recent retirees have been the hardest hit.

Three-quarters of a million (non-postal) employees retired between 1977 and 1985. This group took the brunt of the Federal pay cuts. The later an employee retired during this period the harder he or she was hit. (See chart 13). A 1978 retiree lost a combination of \$8,161 to pay cuts during the last ten years. In 1981 this combined total loss had grown to \$15,654 for an employee retiring that year. But hang on to your hats, because next year, if we cut pay by 5%, the 1986 retiree will have lost a combined total of \$32,749. (See Chart 14).

Conclusions

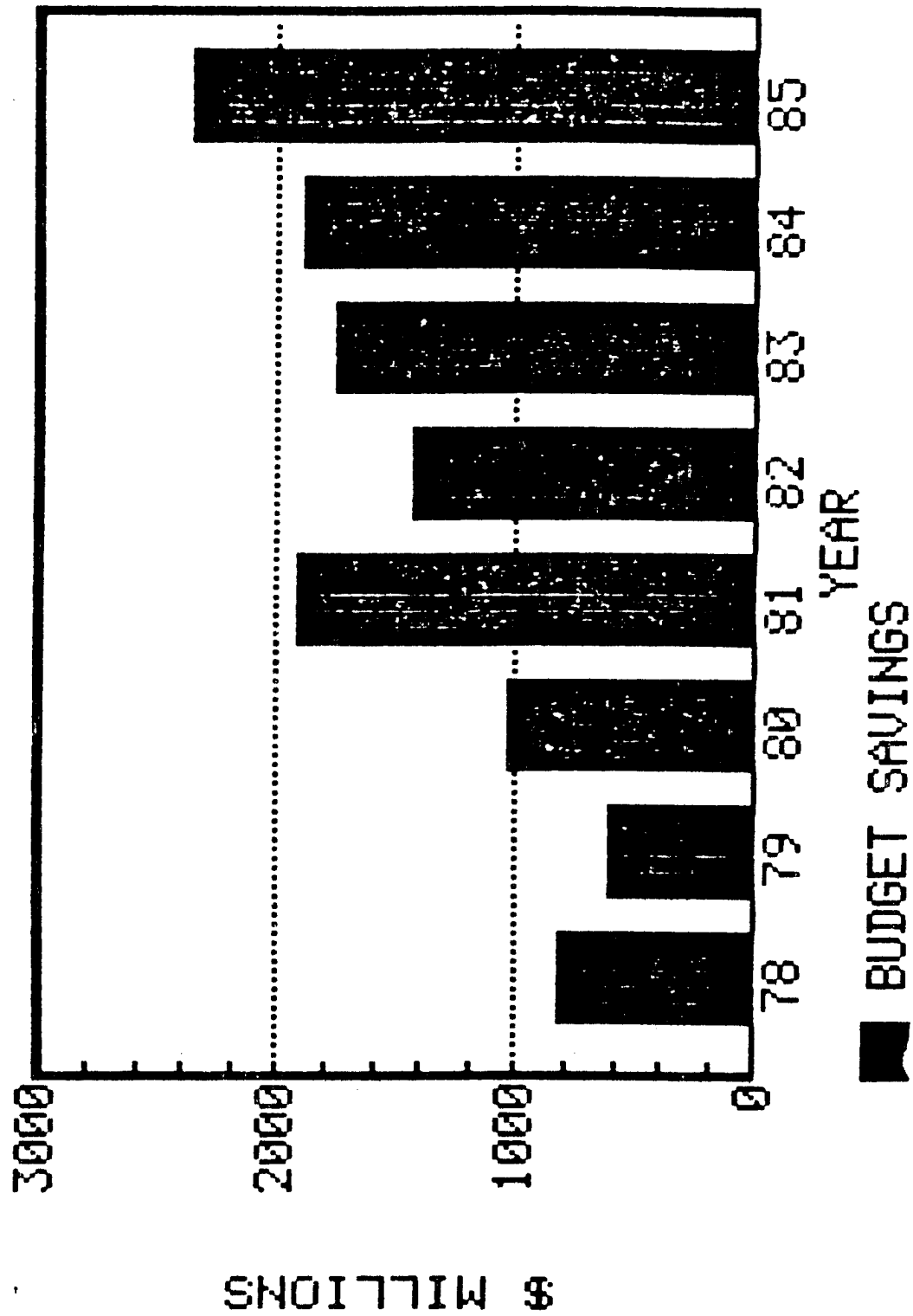
No one suggests that Federal employees should not share the burdens of deficit reduction, but the clear and convincing evidence, Madam Chair is that they have done more than their fair share and will continue to do so even when we reject this irresponsible proposal to cut Federal pay. What I have tried to do this afternoon is demonstrate that the idea of cutting pay was not discovered yesterday. We have cut pay. We have burdened Federal employees over the last ten years as no other group of workers in our society. We haven't always acted responsibly in cutting pay in the past, but neither have we faced the destruction of what can continue to be the world's finest civil service.

I thank my colleague for his patience in letting me go through this analysis. I know that he has several critically important comments to add about the Administration's proposals on Federal retirement. Let me emphasize that the annuity losses I discussed were the indirect consequences of withdrawing wage increases. As heavy as those losses were, we have to recognize that Congress made direct cuts to Federal retirement of over 10% since 1977. In this context, I think it's clear that Congress must continue to reject efforts to reduce the Federal retirement system. In my view, the Administration's proposals to cut retirement is not only a breach of faith with Federal employees and retirees, but a direct attack on a system of public service that serves this country well.

Once again, thank you for the opportunity to share these views with the Subcommittee. After my colleague makes his presentation, I'm sure we will be happy to try to answer any questions that you may have.

CHART NO. 1

PAY + RETIREMENT SAVINGS



BUDGET SAVINGS

78	815
79	609
80	1024
81	1912
82	1421
83	1748
84	1893
85	2353

CHART NO. 2

PRIVATE V. FEDERAL PAY

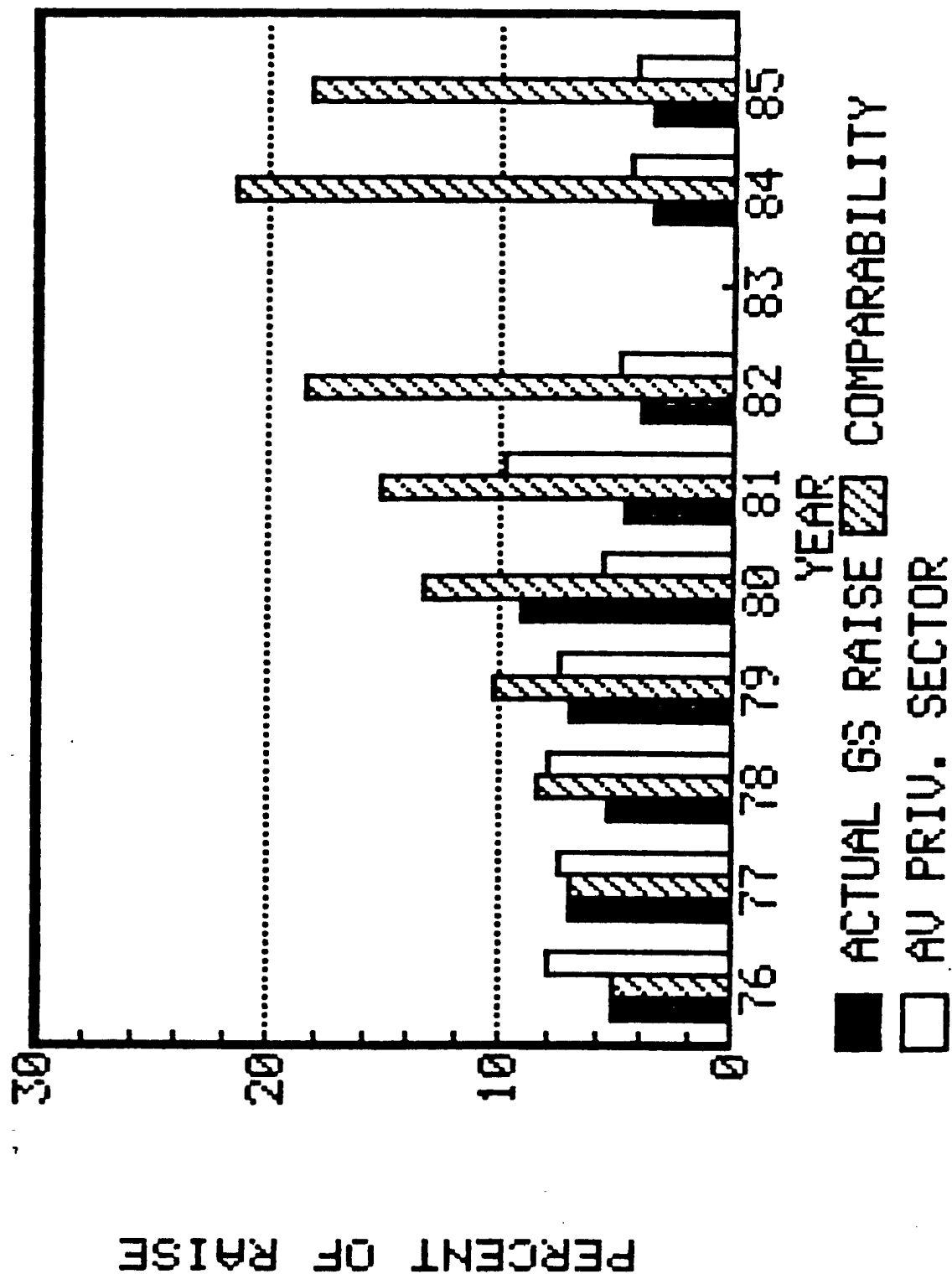
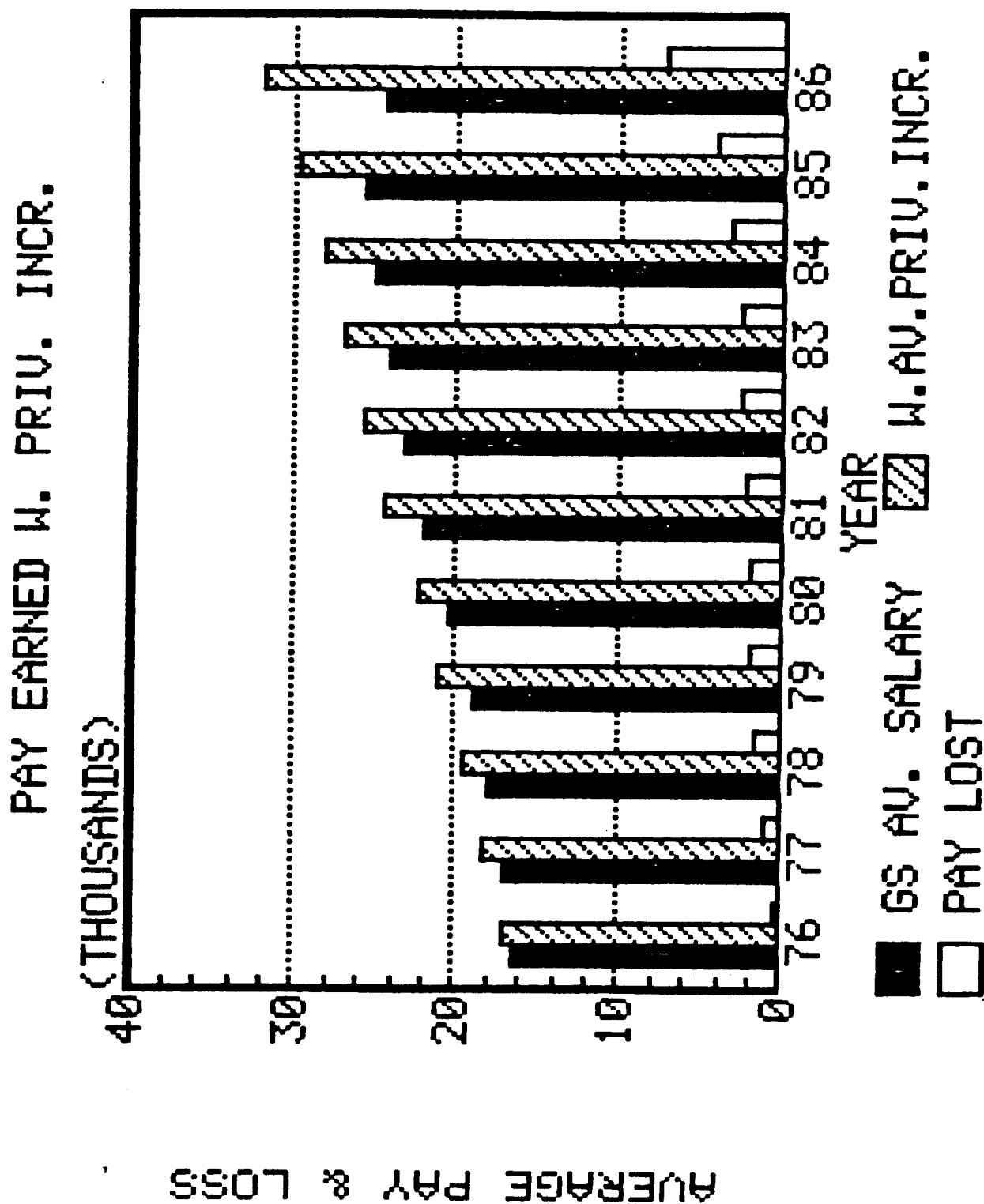


CHART NO. 3

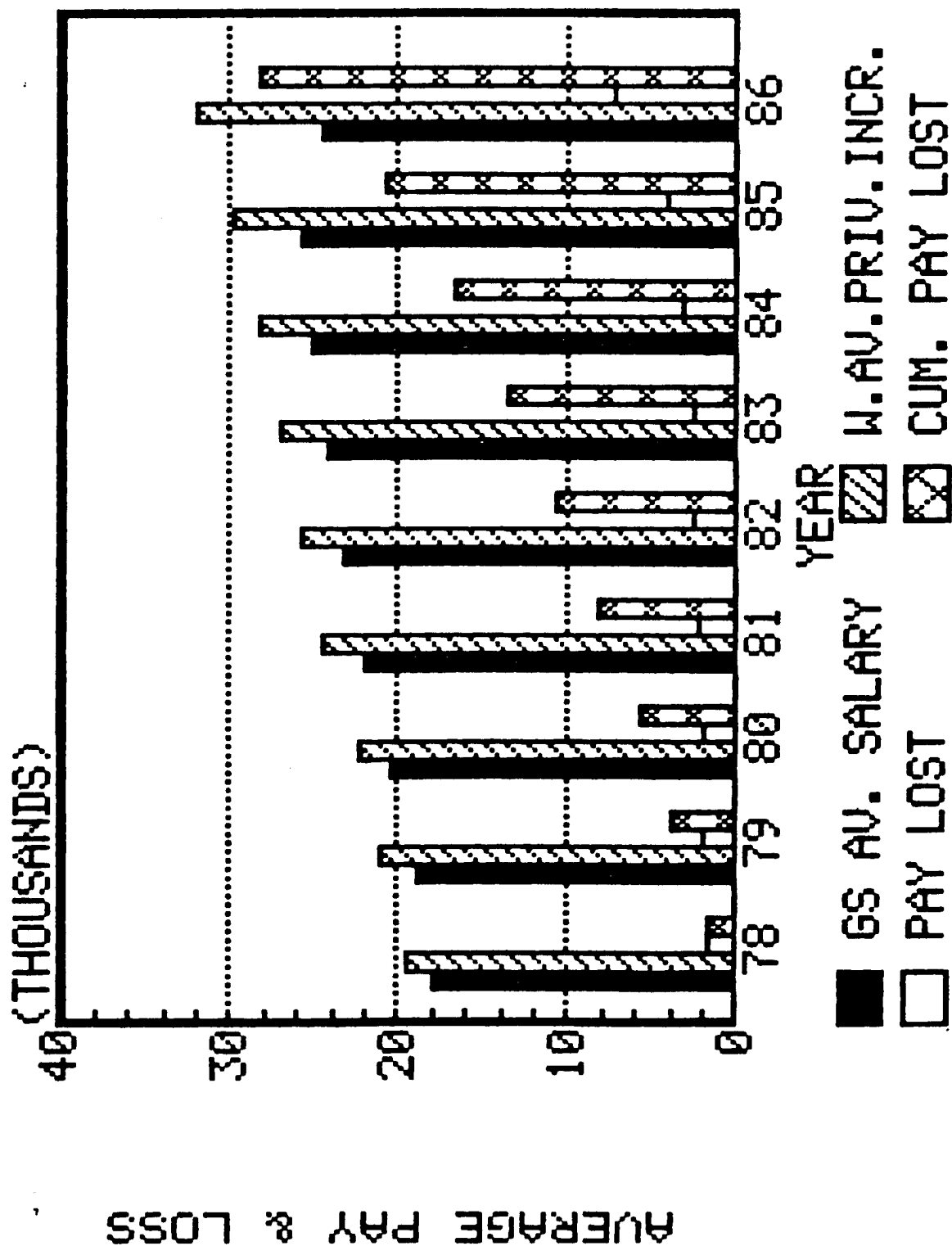
CHART NO. 3



	GS AV. SALARY	W. AV. PRIV. INCR.	PAY LOST
76	16352	16891	539
77	17170	18175	1005
78	17995	19629	1634
79	18984	21121	2137
80	20313	22346	2033
81	22162	24558	2396
82	23225	25781	2536
83	24154	26946	2792
84	25000	28132	3132
85	25875	29961	4086
86	24581	32028	7447

CHART NO. 4

PAY EARNED W. PRIV. INCR.

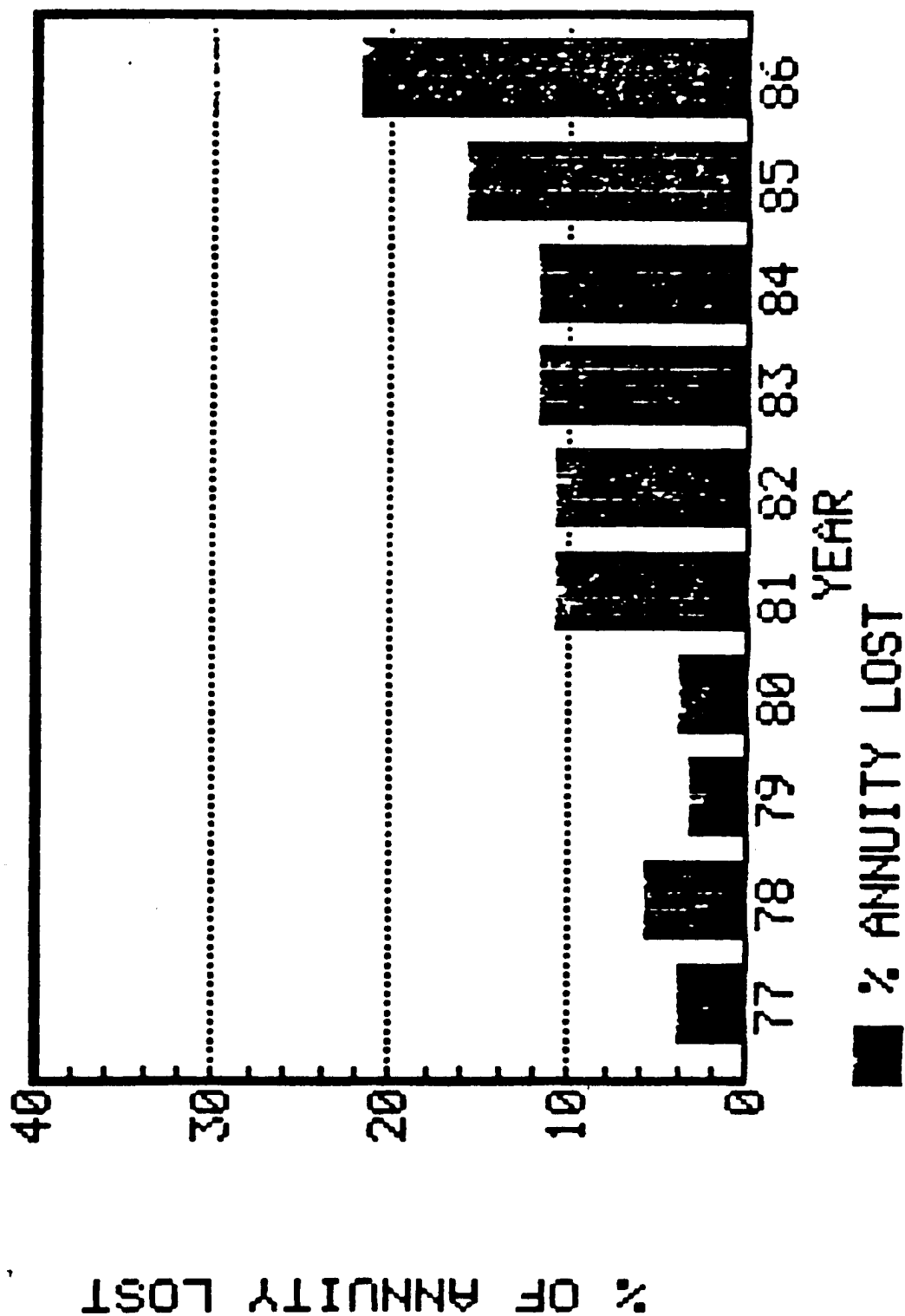


	GS AV. SALARY	W. AV. PRIV. INCR.	PAY LOST	CUM. PAY LOST
78	17995	19629	1634	1634
79	18984	21121	2137	2137
80	20313	22346	2033	2033
81	22162	24558	2396	2396
82	23225	25781	2536	2536
83	24154	26946	2792	2792
84	25000	28132	3132	3132
85	25875	29961	4086	4086
86	24581	32028	7447	7447

CHART NO. 5

CHART NO. 5

PAY LOSS REDUCES ANNUITY

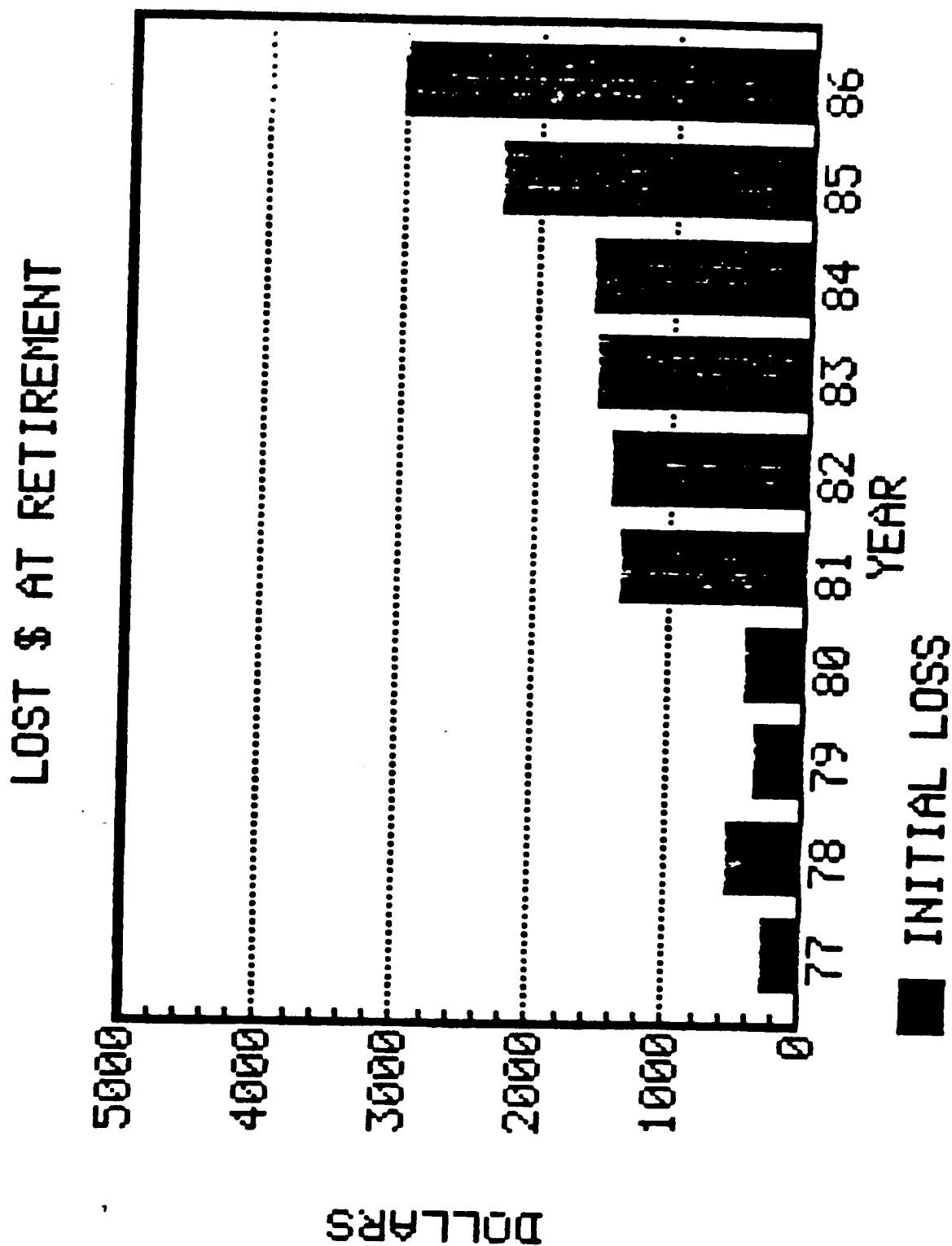


% ANNUITY LOST

77	3.80
78	5.80
79	3.40
80	4
81	10.80
82	10.90
83	11.60
84	11.70
85	15.80
86	

CHART NO. 6

CHART NO. 6

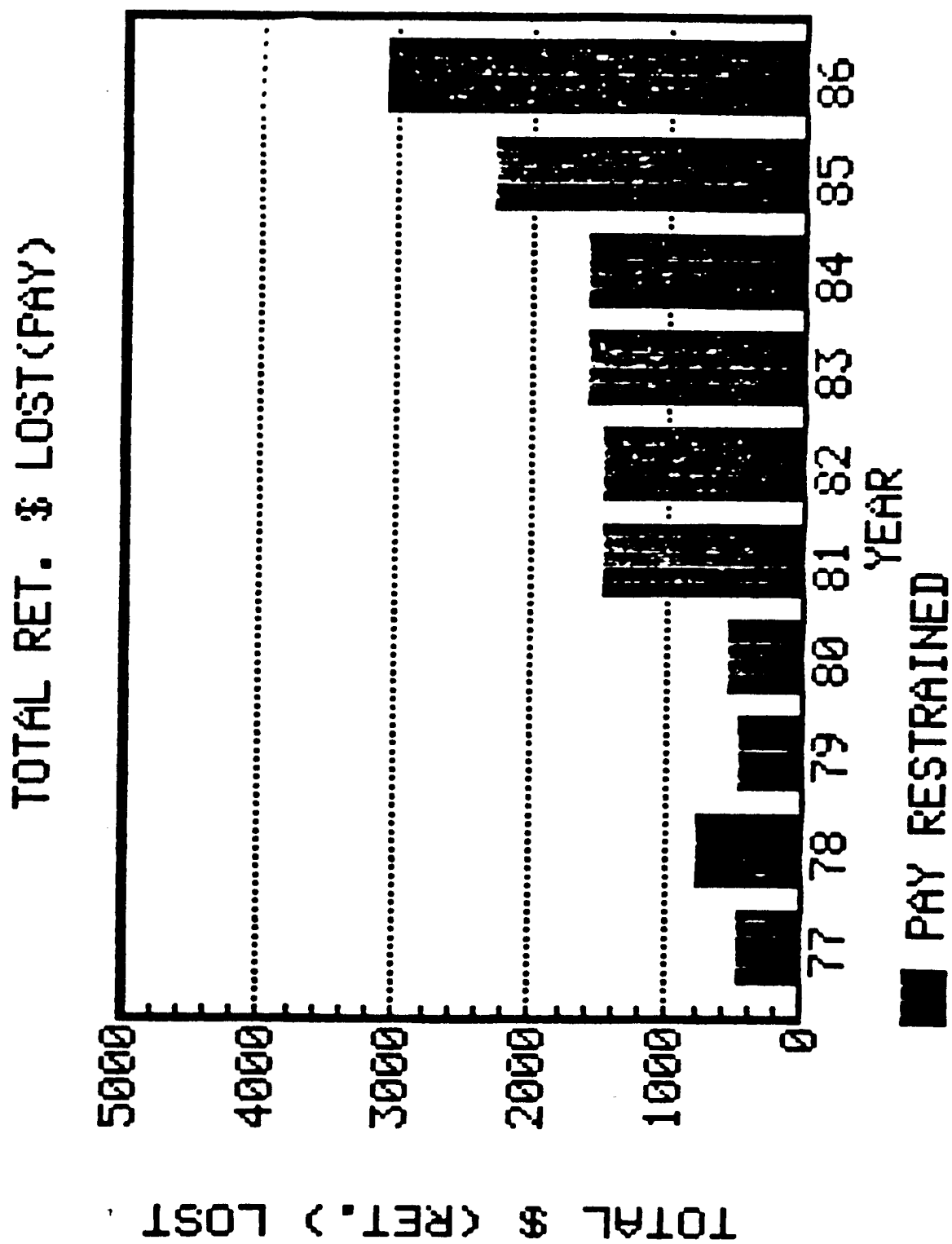


INITIAL LOSS

77	303.18
78	565.31
79	362.81
80	454.50
81	1347.75
82	1426.50
83	1572.18
84	1586.25
85	2298.37
86	

CHART NO. 7

CHART NO. 7

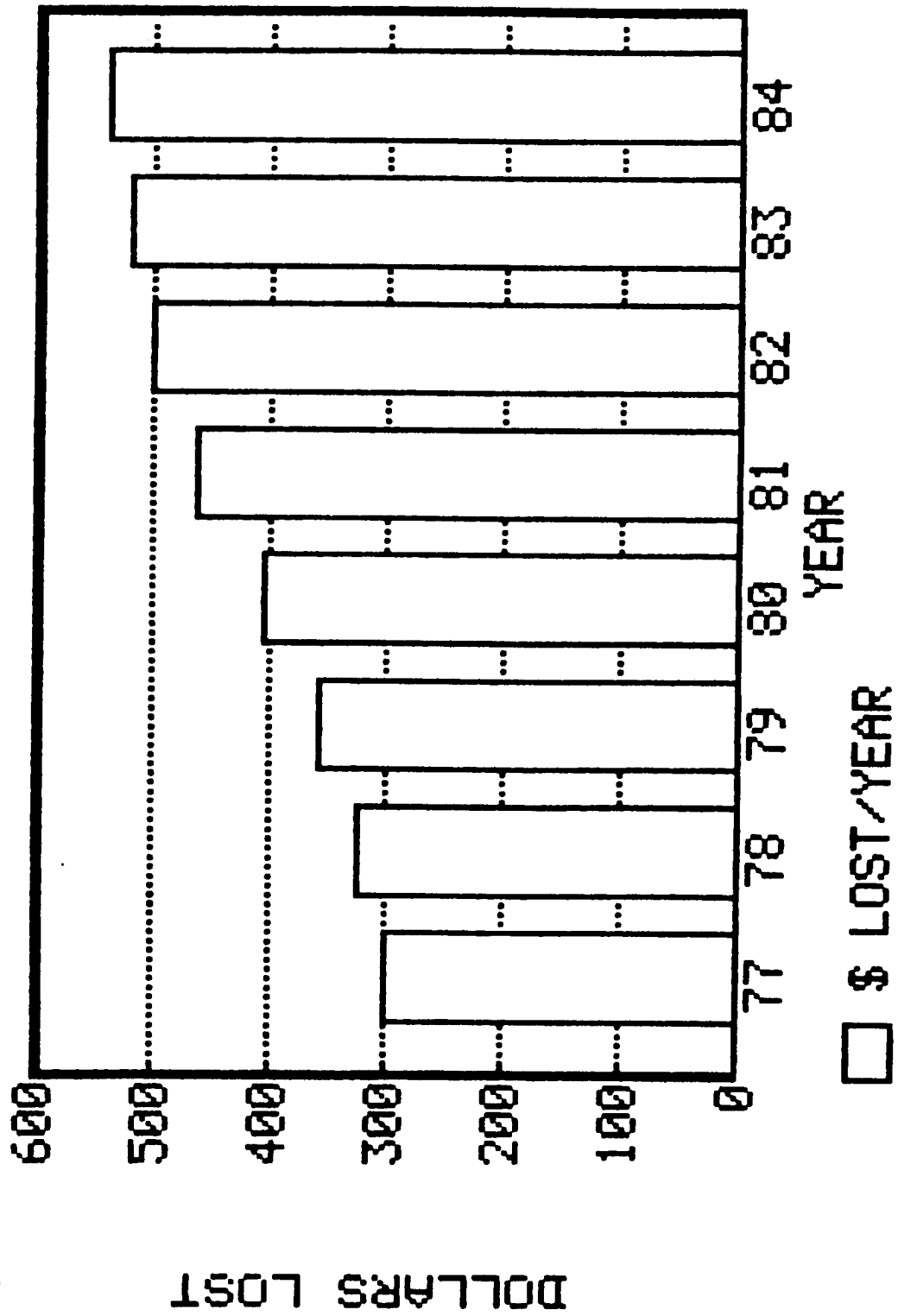


PAY RESTRAINED

77	496.31
78	776.58
79	470.22
80	541.74
81	1477.57
82	1480.88
83	1599.70
84	1586.25
85	2298.37
86	

CHART NO. 8

LOSS PROFILE 1977 RETIREE



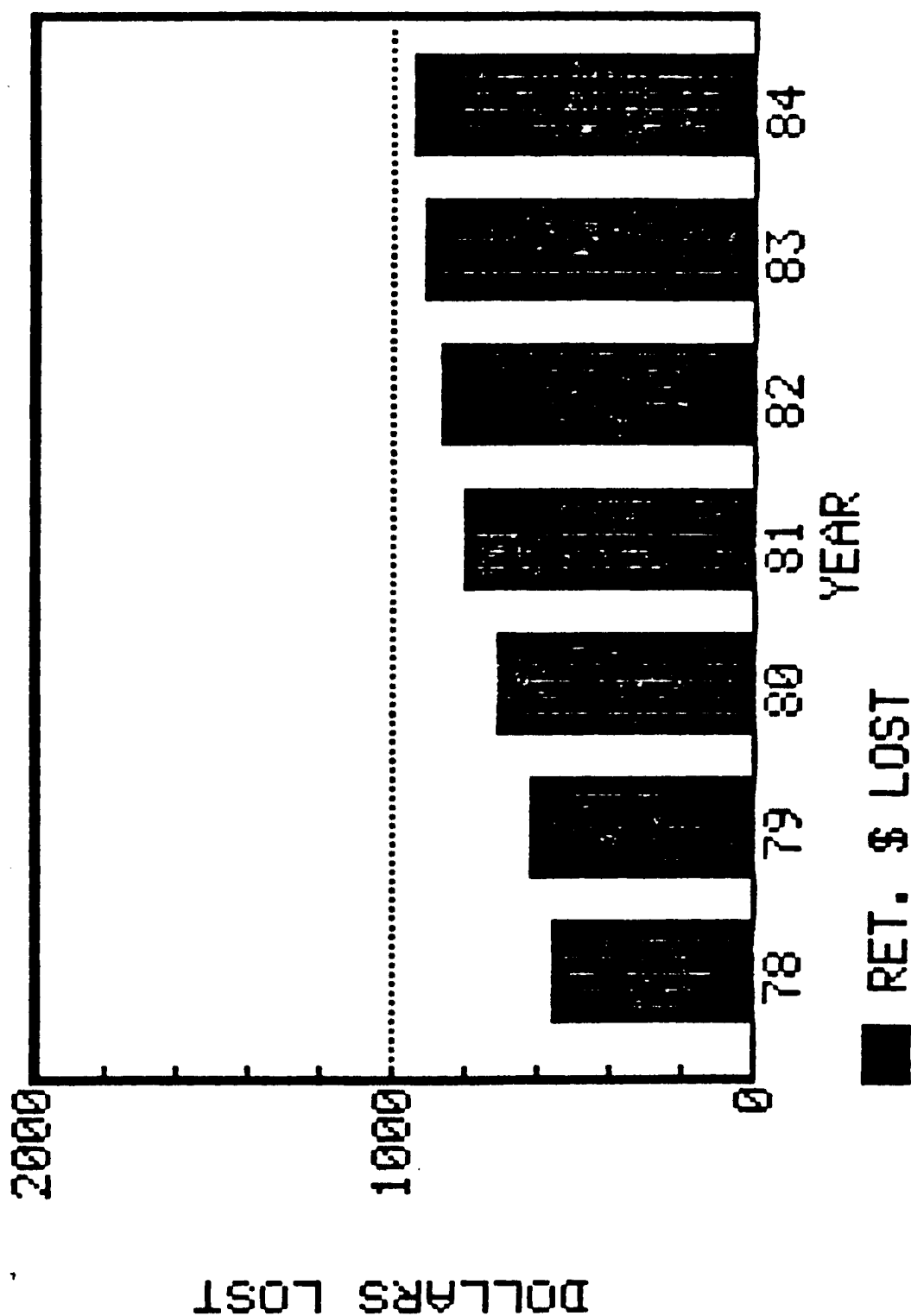
*** LOST/YEAR**

77	303
78	325
79	360
80	409
81	463
82	503
83	523
84	541

CHART NO. 9

CHART NO. 9

PROFILE OF 1978 RETIREE



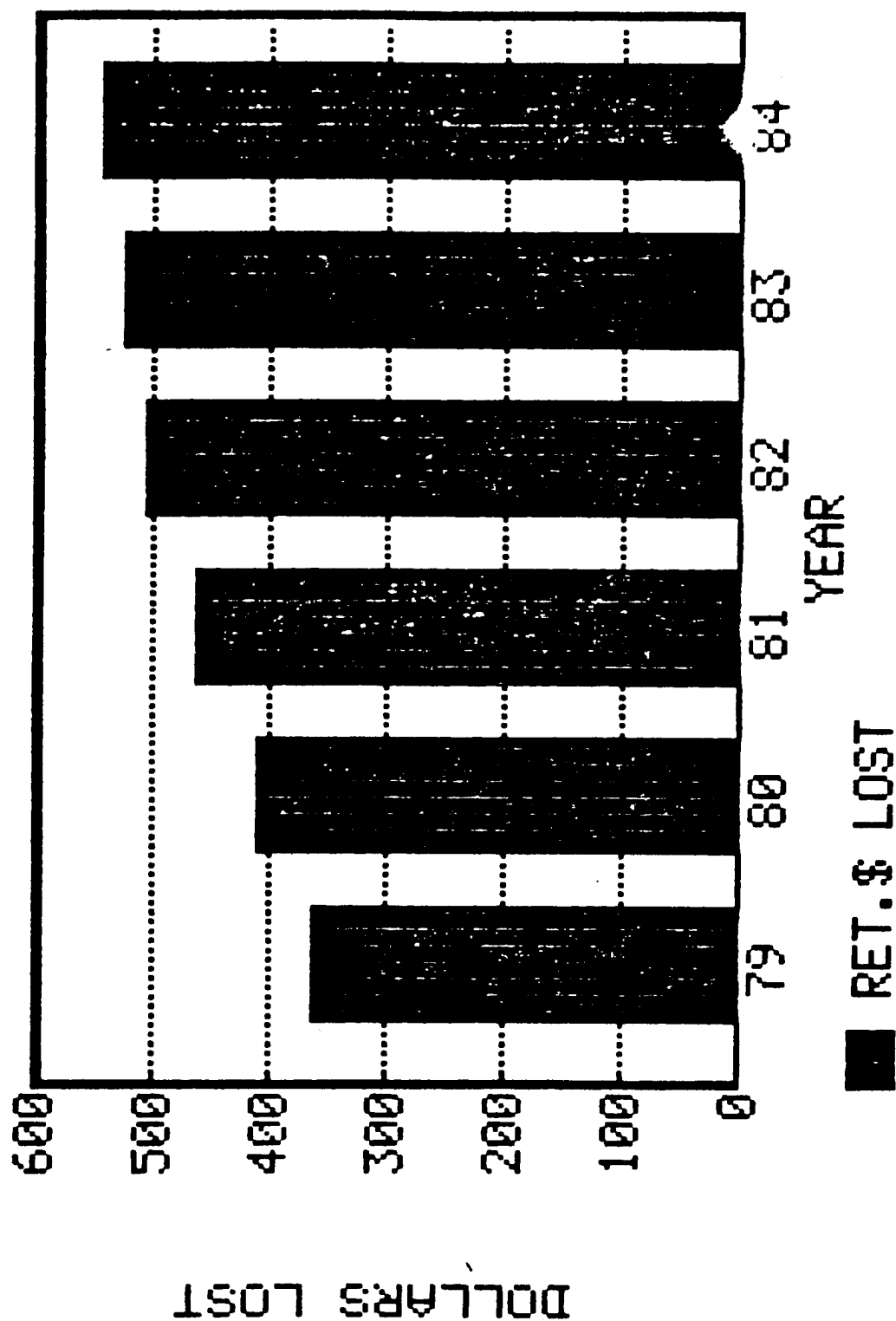
RET. * LOST

78	565
79	626
80	712
81	805
82	875
83	909
84	941

CHART NO. 10

CHART NO. 10

PROFILE OF 1979 RETIREE

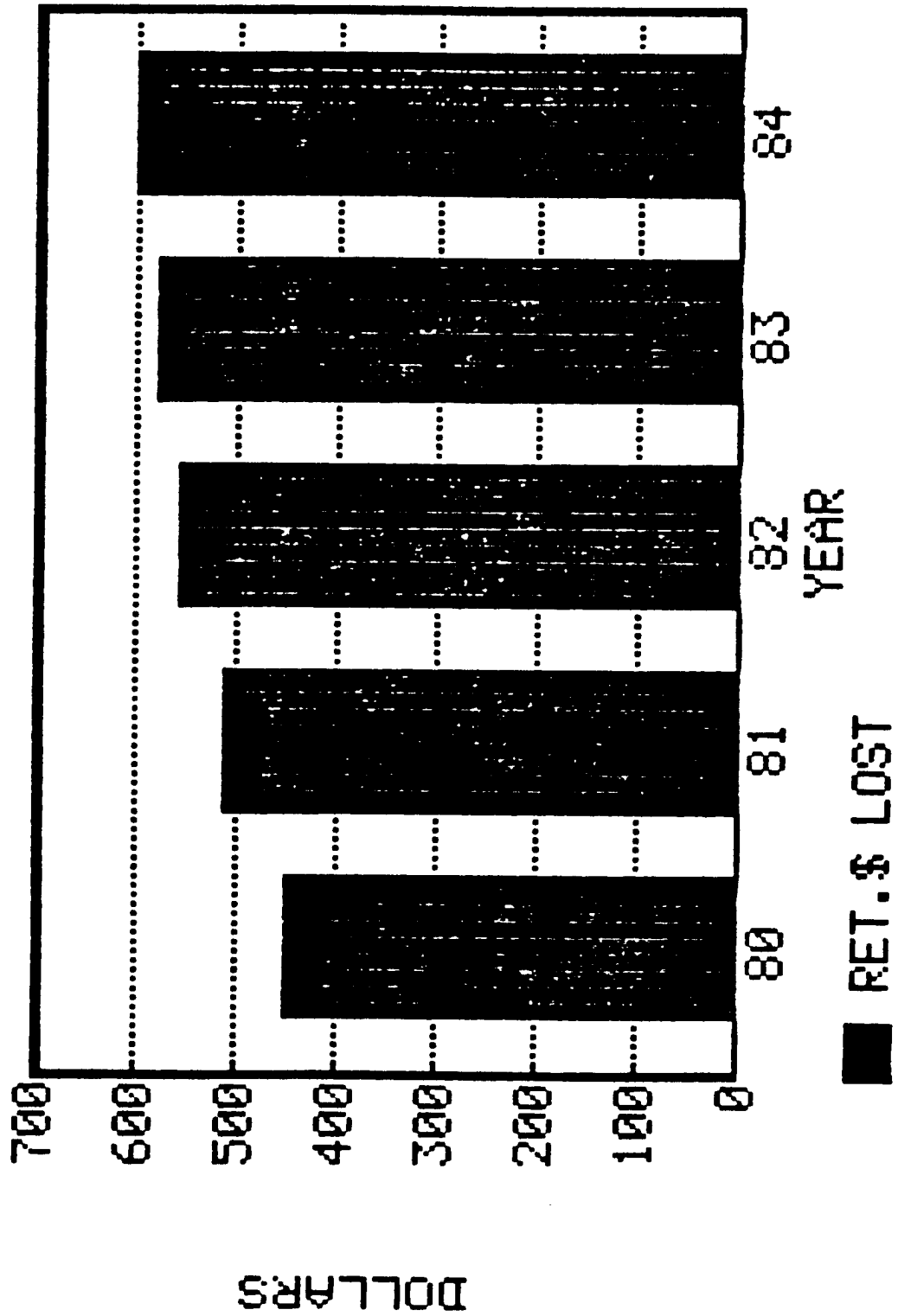


RET. # LOST

79	362
80	412
81	466
82	507
83	526
84	545

CHART NO. 11

PROFILE OF 1980 RETIREE

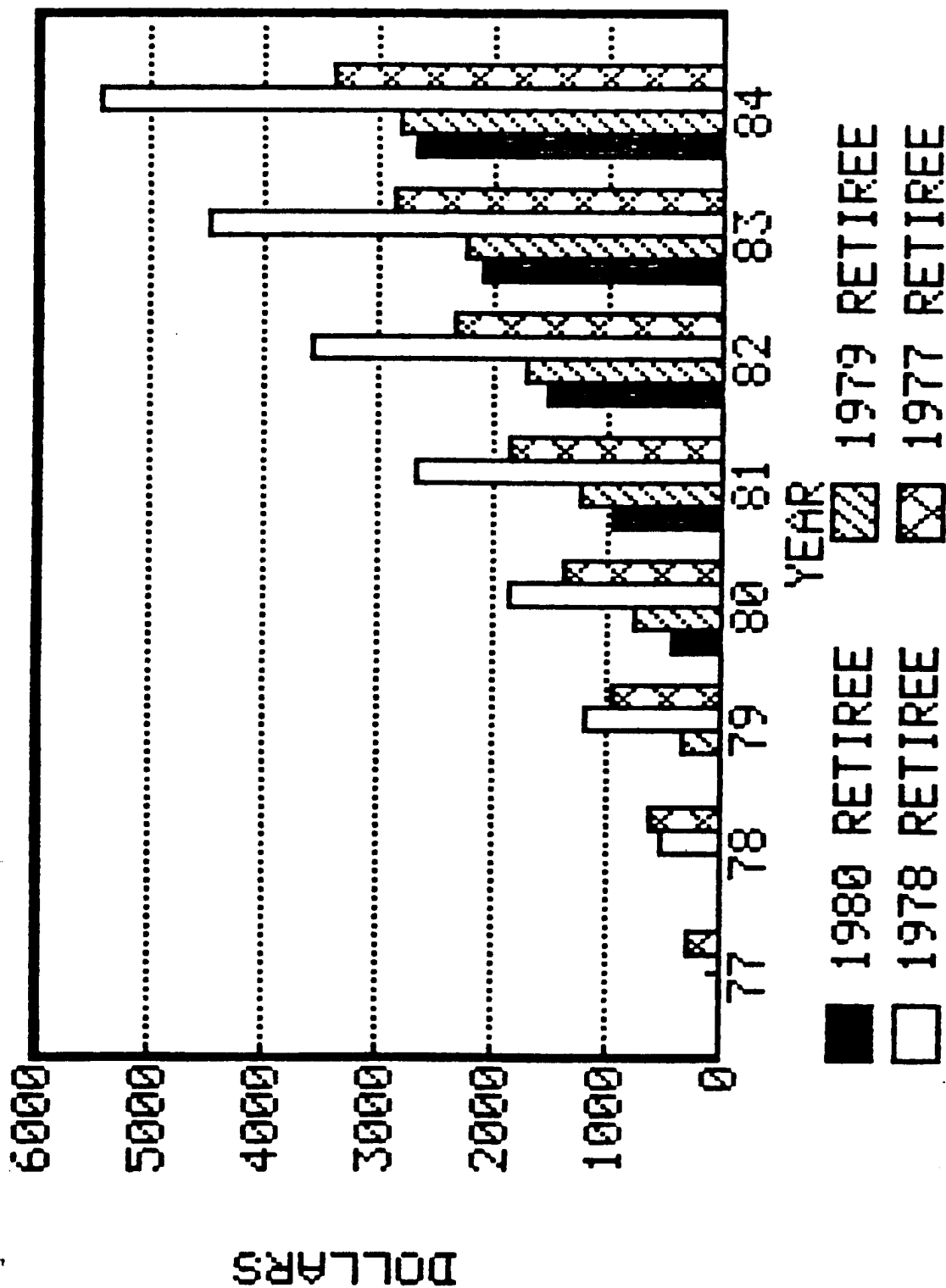


RET. * LOST

80	454
81	514
82	558
83	580
84	600

CHART NO. 12

RETIREE COHORTS & LOSSES

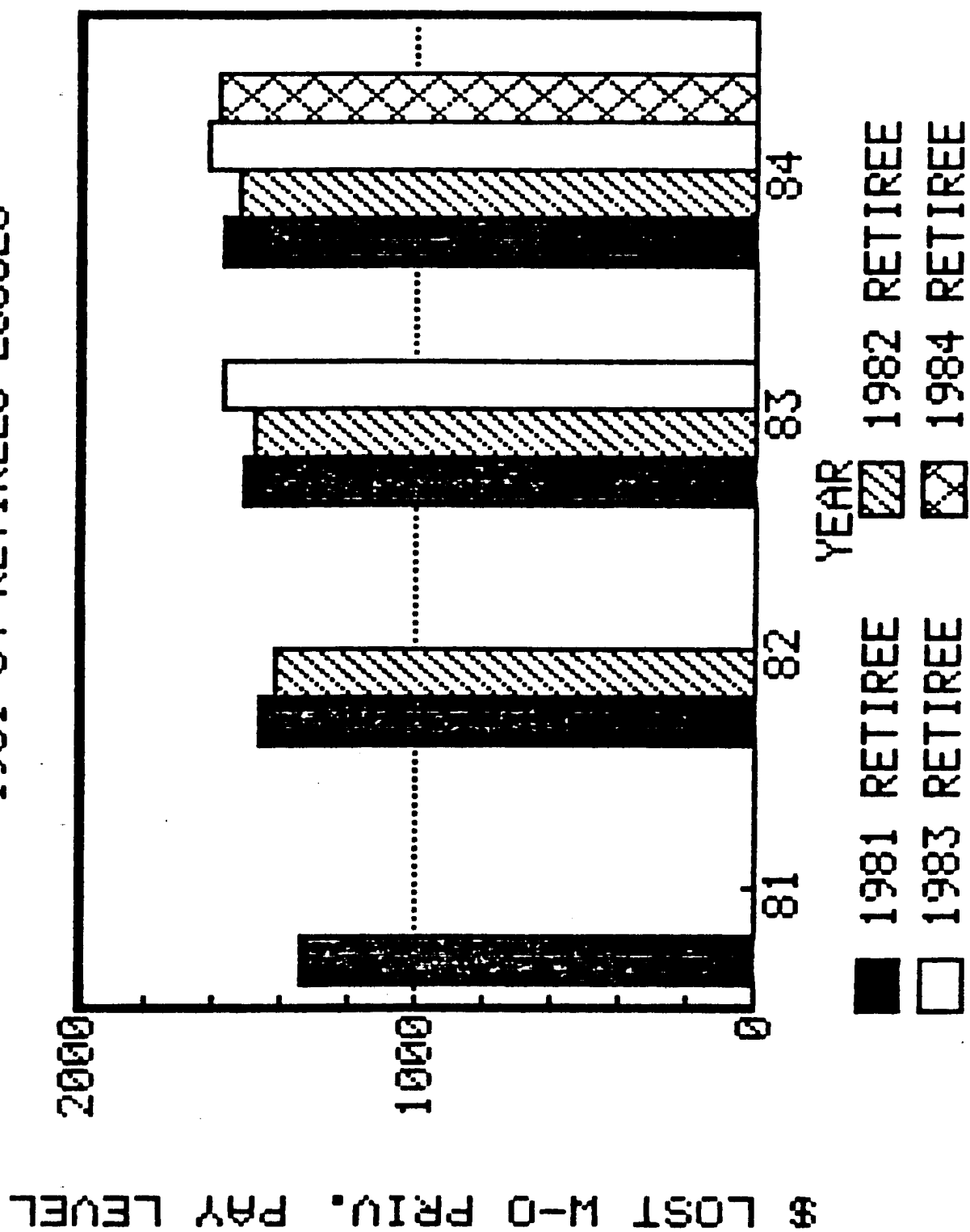


	1980 RETIREE	1979 RETIREE	1978 RETIREE	1977 RETIREE
77				303
78			565	325
79		362	626	360
80	454	412	712	409
81	514	466	805	463
82	558	507	875	503
83	580	526	909	523
84	600	545	941	541

CHART NO. 13

CHART NO. 13

1981-84 RETIREES LOSSES

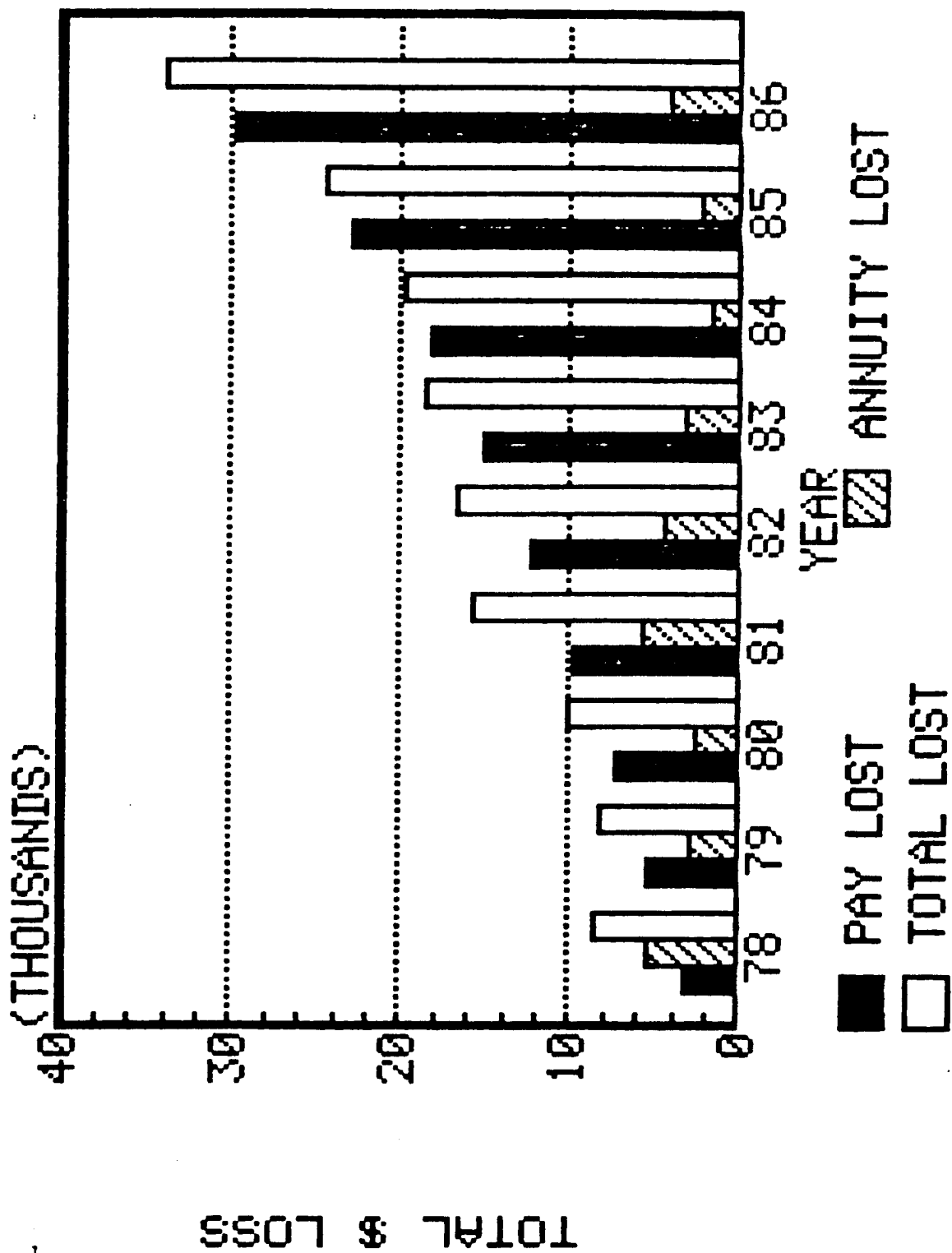


	1981 RETIREE	1982 RETIREE	1983 RETIREE	1984 RETIREE
81	1347			
82	1465	1426		
83	1522	1482	1572	
84	1575	1534	1627	1586

CHART NO. 14

CHART NO. 14

COHORT LOSS 1978 TO 1986



	PAY LOST	ANNUITY LOST	TOTAL LOST
78	3178	5436	8614
79	5315	2821	8136
80	7348	2708	10056
81	9744	5910	15654
82	12280	4442	16722
83	15072	3199	18271
84	18204	1586	19790
85	22920	2298	24588
86	29737	4188	33925